INFORMATION BULLETIN

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Clarifications relating to certain application details of the refundable tax credit for solidarity

To better meet the needs of low- and middle-income households, it was announced, in the 2010-2011 Budget Speech,[1] that the refundable tax credit for the Québec sales tax, the property tax refund and the refundable tax credit for individuals living in a northern village will be grouped into a single refundable tax credit – the solidarity tax credit.

This new tax credit will be granted as of July 2011.[2] It will be paid on a monthly basis so that it is closely related to the needs it aims to fill.

Briefly, an individual may benefit from the solidarity tax credit for a given month in a period of 12 months beginning on July 1 of a calendar year only if he applied for it in the tax return filed for the year prior to the calendar year[3] and, unless he is unable to open a bank account, is registered for direct deposit of the Agence du revenu du Québec.

The solidarity tax credit varies with family income and has three components. The first component, relating to the Québec sales tax, is intended to mitigate the burden of the tax; the second, relating to housing, seeks to mitigate the costs arising from occupying an eligible dwelling; and the last one, intended exclusively for individuals who live in one of the 14 northern villages, seeks to recognize the fact that the cost of living in these villages is higher than elsewhere.

To facilitate enrolment in direct deposit for individuals wishing to obtain the solidarity tax credit, to enable certain individuals to benefit from the housing component despite the lodging of their spouse for health reasons and to ensure that the method used to calculate the tax credit gives the best result, clarifications will be made to some of its application details.

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1 MINISTÈRE DES FINANCES DU QUÉBEC, *2010-2011 Budget – Additional Information on the Budgetary Measures*, March 30, 2010, p. A.8 to A.24.

2 The first solidarity tax credit payment will be made July 5, 2011.

3 When an individual does not reside in Québec on December 31 of the year prior to the calendar year, the application must be made on the prescribed form for new residents of Québec.

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❑ Increase in the number of financial institutions recognized for the purposes of direct deposit

Currently, an individual who wishes to enrol for direct deposit of the Agence du revenu du Québec to obtain the solidarity tax credit must in particular provide the number of a bank account he holds in a financial institution having an establishment located in Québec.

Although almost all Québec residents deal with a financial institution that has a branch in the province, it is less and less infrequent these days that individuals choose to do business with a financial institution located elsewhere in Canada in light of the new electronic means available to them.

To take account of the growing popularity of online banking transactions, without compromising the security and effectiveness of fund transfers, the tax legislation will be amended so that the direct deposit of the solidarity tax credit can be effected in a bank account held at a financial institution included in the list in Part I of Appendix I to Rule D4, Institution Numbers and Clearing Agency Arrangements, of the *Automated Clearing Settlement System (ACSS) Rules Manual*[4] of the Canadian Payments Association.

The list of financial institutions recognized on the date of publication of this information bulletin, with the names of more than one hundred institutions, is given in the appendix. This list is regularly updated by the Canadian Payments Association.[5]

As a corollary, the tax legislation will be amended to stipulate that, for the purposes of direct deposit of an advance payment of the refundable tax credit for child care expenses, the refundable tax credit for home maintenance of an elderly person or the refundable tax credits to increase the incentive to work,[6] the bank account that an individual must designate may be held at one of the financial institutions included in the list in Part I of Appendix I to Rule D4 of the *Automated Clearing Settlement System (ACSS) Rules Manual* of the Canadian Payments Association.

These amendments will apply to a direct deposit made after the date of publication of this information bulletin.

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4 The Automated Clearing Settlement System was established by the Canadian Payments Association By-law No. 3 — Payment Items and Automated Clearing Settlement System, SOR/2003-346.

5 http://www.cdnpay.ca

6 Namely the general work premium, the adapted work premium for persons with severely limited capacity for employment and the supplement for long-term recipients who exit last-resort financial assistance or the Youth Alternative Program.

❑ Addition of a special rule for the purposes of the determination of the housing component

Briefly, an eligible individual may benefit from housing component of the solidarity tax credit, for a given month subsequent to June 2011, only if, at the beginning of such month, he ordinarily lives in an eligible dwelling of which he is owner, tenant or subtenant or he ordinarily lives with his spouse in an eligible dwelling of which the latter is the owner, tenant or subtenant provided no other person who is also the owner, tenant or subtenant of such dwelling ordinarily resides with them.

A special rule will be implemented to ensure that an amount on account of the housing component of the solidarity tax credit can be granted to an eligible individual who is not the owner, tenant or subtenant of the eligible dwelling in which he ordinarily lives, where his spouse would be entitled to an amount in regards to such dwelling were he or she not lodged in another place for health reasons.

More specifically, where, at the beginning of a given month subsequent to June 2011, an eligible individual is not the owner, tenant or subtenant of the eligible dwelling in which he ordinarily lives and where the person with this quality in regards to the dwelling is lodged in a dwelling that has become his or her ordinary place of residence and is located in a facility of the health and social services network (person in lodging), the individual will be deemed, at the beginning of the given month, to have such quality in regards to the dwelling in which he lives if, immediately before his or her lodging, the person in lodging ordinarily lived in the eligible dwelling with the individual and he or she is, at the beginning of the given month, the cohabiting spouse[7] of the individual. In such a case, the person in lodging will be deemed to no longer have, at the beginning of the given month, the quality of owner, tenant or subtenant in regards to the eligible dwelling in which his or her spouse lives.

For the purposes of this rule, a facility of the health and social services network means one of the following facilities:

— a facility maintained by a public institution or private (under agreement or not) covered by the Act respecting health services and social services[8] that operates a hospital centre, a residential and long-term care centre or a rehabilitation centre within the meaning of this act;

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7 For the purposes of the solidarity tax credit, the expression "cohabiting spouse" means a person who, at a given time, is the spouse of an individual from whom he or she is not living separate at such time. In this regard, a person is considered as living separated from an individual, at a given time, only if he or she is separated from the individual, at such time, because of the failure of their union, and such separation continued for a period of at least 90 days that includes such time.

8 R.S.Q., c. S-4.2.

— a facility maintained by a hospital centre or a reception centre that is a public or private institution (under agreement or not) for the purposes of the Act respecting health services and social services for Cree Native persons;[9]

— a building or residential premises where are offered the services of an intermediate resource or a family-type resource within the meaning of the Act respecting health services and social services or those of a foster family covered by the Act respecting health services and social services for Cree native persons.

❑ Clarification of the calculation method of the tax credit

Under the existing tax legislation, the amount that may be paid on account of the solidarity tax credit for a given month to an eligible individual is calculated in three steps.

The first step consists in determining the maximum amount of the tax credit an individual could receive before any reduction based on his family income as if the given month made up an entire calendar year. This maximum amount is obtained by adding each of the amounts allowed the eligible individual for the calendar year in which the given month is included according to the various components of the tax credit of which he may avail himself, taking the composition of his household into account.

The second step of the calculation consists in reducing, if necessary, based the family income of the eligible individual for the calendar year preceding the period of twelve months that begins on July 1 of a year in which the given month is included,[10] the maximum amount otherwise determined. This reduction is made using a rate of 6% (3% if the eligible individual receives only the Québec sales tax component) for each dollar of the individual's family income in excess of the reduction threshold applicable for the calendar year that includes the given month.

The amount thus reduced is then converted to a monthly basis,[11] which is the third step of the calculation of the tax credit.

However, as a result of applying this calculation method, it is possible that some eligible individuals whose family income exceeds the applicable reduction threshold may be entitled, if they avail themselves of both the Québec sales tax component and the housing component, to tax assistance less than they would have received had they availed themselves only of the Québec sales tax component.

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9 R.S.Q., c. S-5.

10 To take the needs of recipients of last-resort financial assistance into account, the family income that must be taken into account for the purposes of calculating the tax credit for any person who, at the beginning of a given month, will be a recipient of the Social Assistance Program or the Social Solidarity Program stipulated by the Individual and Family Assistance Act (R.S.Q., c. A-13.1.1) will be deemed equal to zero.

11 Exceptionally, for a given month included in 2011, the maximum amount otherwise determined will be divided by six rather than by twelve given that payment of the solidarity tax credit will begin as of July 2011.

So that the method used to calculate the solidarity tax credit gives the best result, the tax legislation will be amended to stipulate that in no case can the amount of the tax credit determined for a particular month be less than the amount that would have been determined had the eligible individual been entitled, for such month, only to the Québec sales tax component.

More specifically, the amount of the solidarity tax credit, for a given month, that an eligible individual may receive in regards to such month will be equal to the greater of the following amounts:

— the amount determined for such month in regards to the eligible individual pursuant to the existing calculation method;

— the amount that would have been determined for such month in regards to the eligible individual pursuant to the existing calculation method had the eligible individual been entitled only to the Québec sales tax component of the tax credit.

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For information regarding the matters dealt with in this information bulletin, contact the Secteur du droit fiscal et de la fiscalité at 418 691-2236.

The French and English versions of this bulletin are available on the ministère des Finances website at: www.finances.gouv.qc.ca
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Appendix

This appendix lists, in alphabetical order, the financial institutions whose names appear, on the date of publication of this information bulletin, in Part I of Appendix I to Rule D4, Institution Numbers and Clearing Agency Arrangements, of the *Automated Clearing Settlement System (ACSS) Rules Manual* of the Canadian Payments Association.

Recognized financial institutions

AGF Trust Company

Airline Financial Credit Union Limited

Alberta Treasury Branches Corporation

All Trans Credit Union Limited

Alliance des caisses populaires de l'Ontario Ltée

Alterna Savings & Credit Union

Amex Bank of Canada

Arnstein Community Credit Union Limited

Atlantic Central

B2B Trust

Bank of America, National Association

Bank of China (Canada)

Bank of Montreal

Bank of New York Mellon

Bank of Nova Scotia

Bank of Tokyo-Mitsubishi UFJ (Canada)

Bank West

BNP Paribas (Canada)

Bridgewater Bank

Brunswick Credit Union Federation Limited

Caisse populaire de Kapuskasing Ltée

Canada Post Office

Canada Trust Company

Canadian Imperial Bank of Commerce

Canadian Imperial Bank of Commerce (formerly Amicus Bank)

Canadian Tire Bank

Recognized financial institutions (cont.)

Canadian Western Bank

Capital One Bank (Canada Branch)

Central 1 Credit Union

Central 1 Credit Union (Formerly Credit Union Central of Ontario Limited)

CIBC Trust Corporation

Citco Bank Canada

Citibank Canada

Citibank, N.A.

Citizens Bank of Canada

Comerica Bank

Communication Technologies Credit Union limited

Community First Credit Union Limited

Community Trust Company

Concentra Financial Services Association

Credit Union Central Alberta Limited

Credit Union Central of Canada (CUCC)

Credit Union Central of Manitoba Limited

Credit Union Central of Prince Edward Island

Credit Union Central of Saskatchewan

CS Alterna Bank

CTC Bank of Canada

Desjardins Credit Union Inc.

Deutsche Bank AG

DirectCash Bank

DUCA Financial Services Credit Union Ltd.

Dundalk District Credit Union Limited

Dundee Bank of Canada

Edward Jones

Effort Trust Company

Equitable Trust Company

Fédération des caisses Desjardins du Québec

Fédération des caisses populaires Acadiennes Limitée

Fédération des caisses populaires de l'Ontario Inc.

Fédération des caisses populaires du Manitoba Inc.

Recognized financial institutions (cont.)

Fifth Third Bank

First Commercial Bank

First Nations Bank of Canada

Goderich Community Credit Union Limited

Golden Horseshoe Credit Union Limited

Habib Canadian Bank

Home Savings and Loans Corporation

Household Trust Company

HSBC Bank Canada

HSBC Bank USA, National Association

HSBC Mortgage Corporation (Canada)

ICICI Bank Canada

Industrial Alliance Trust Inc.

Industrial and Commercial Bank of China (Canada)

ING Bank of Canada

Investors Group Trust Co. Ltd.

J.P. Morgan Bank Canada

Jameson Bank

JPMorgan Chase Bank, National Association (Canada)

Korea Exchange Bank of Canada

Lambton Financial Credit Union Limited

Latvian Credit Union Limited

Laurentian Bank of Canada

M&T Bank

M.R.S. Trust

Manulife Bank of Canada Limited

Manulife Trust Company

MBNA Canada Bank

Mega International Commercial Bank (Canada)

Meridian Credit Union Limited

Mizuho Corporate Bank, Ltd., Canada Branch

Montreal Trust Company of Canada

National Bank of Canada

National Trust Company

Recognized financial institutions (cont.)

Ontario Civil Service Credit Union Limited

Pacific & Western Bank of Canada

Peace Hills Trust Company

People's Trust Company

President's Choice Bank

Provincial Trust Company

Rabobank Nederland

ResMor Trust Company

Royal Bank Mortgage Corporation

Royal Bank of Canada

Royal Bank of Scotland N.V. (Canada) Branch

Royal Trust Company

Royal Trust Corporation of Canada

Scotia Mortgage Corporation

Shinhan Bank Canada

Société Générale (Canada Branch)

Société Générale (Canada)

St. Stanislaus – St. Casimir's Polish Parishes Credit Union Limited

State Bank of India (Canada)

State Street

Sumitomo Mitsui Banking Corporation of Canada

Sun Life Financial Trust Inc.

TD Mortgage Corporation

TD Pacific Mortgage Corporation

Toronto-Dominion Bank

Trust La Laurentienne

U.S. Bank National Association Branch

UBS Bank (Canada)

United Overseas Bank Limited